Building the Canada We Want

Budget 2003

Investing in Canada's Health Care System

February 18, 2003

Canada

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Building the Canada We Want

Thanks to the efforts and sacrifices of Canadians everywhere, Canada is enjoying the benefits of a thriving economy. Our nation led the G7 in growth last year and is expected to do the same in 2003.

Budget 2003 recognizes the critical link between social and economic policy and continues the Government's balanced approach to managing the nation's finances. This approach plays a critical role in building the Canada that all Canadians want for the future. It does so in three ways:

- **building the society Canadians value** through investments in individual Canadians, their families and communities;
- **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- **building the accountability Canadians deserve** by making government spending more transparent and accountable.

Highlights

This budget makes significant investments to address the concerns of Canadians about their health care system: waiting lists, availability of diagnostic equipment and accountability for their tax dollars. These federal investments, in conjunction with those of provincial and territorial partners, will help to improve access to the health care system for Canadians, enhance accountability for how health dollars are spent, and ensure the future sustainability of the system.

- The 2003 First Ministers' Accord on Health Care Renewal is a commitment designed to improve the accessibility, quality, and sustainability of the public health care system and enhance transparency and accountability in health care spending.
- Federal support to health care will increase by $17.3 billion over the next three years and by $34.8 billion over the next five years. This includes:
  - $9.5 billion in transfers to provinces and territories over the next five years;
  - $2.5 billion in an immediate investment through a Canada Health and Social Transfer (CHST) supplement to relieve existing pressures;
  - $16.0 billion over five years to provinces and territories for a Health Reform Fund targeted to primary health care, home care and catastrophic drug coverage;
  - $5.5 billion over five years in health initiatives, including diagnostic/medical equipment, health information technology, and the creation of a six-week compassionate family care leave benefit under employment insurance; and
  - $1.3 billion over five years to support health programs for First Nations and Inuit.
- First ministers have also agreed to an enhanced accountability framework to report to Canadians on the progress of reform.

- The federal government is setting out a long-term funding framework to provide provinces and territories with predictable, growing and sustainable support for health care and other social programs.
- The federal government will create two new transfers on April 1, 2004: a Canada Health Transfer (CHT) and a Canada Social Transfer (CST) to increase transparency and accountability.

Introduction

Canada's publicly funded health care system plays a key role in building the society we value. It is vital to our quality of life and a reflection of the values we share as a nation. It is also at the leading edge where economic and social policies interact. It provides Canada with the distinct economic advantage of a healthy, productive workforce and provides security in retirement.

The Romanow Commission on the Future of Health Care in Canada, the Kirby Senate Study on the State of the Health Care System in Canada and several recent provincial reports clearly indicated that Canadians want and expect improved access to quality services from our publicly funded health care system. Canadians from all parts of the country have said that modernizing medicare means providing better access to services such as primary care, diagnostic services, home care, palliative care and catastrophic drug coverage. In short, they want real, substantive reforms, along with increased transparency and accountability.

Canadians have asked that their governments work together to strengthen the health care system and ensure its long-term sustainability. The new Accord on Health Care Renewal, agreed to by Canada's first ministers on February 5, 2003, reflects a common commitment among governments to work together to improve access, enhance accountability for how health dollars are spent and the results achieved, and ensure that the system remains sustainable in the long term.

> "Canadians want a sustainable health care system that provides timely access to quality health services. They recognize that reform is essential, and they support new public investments targeted to achieve this goal."
>
> 2003 First Ministers' Accord on Health Care Renewal

The funds provided in this budget build on the significant investments in health care already made by the Government of Canada since the budget was balanced in 1997–98, including the September 2000 first ministers' agreement. This budget confirms increased health care funding of $34.8 billion over the next five years. The federal government is committed to ensuring that future generations of Canadians continue to have access to universal, quality care—care that is based on need, not on the ability to pay.

February 2003 Accord—A Five-Year Plan Focused on Improving Access

The agreement reached by the first ministers on February 5, 2003, sets out a plan for reforms to improve access to quality health care for Canadians. This plan builds on the September 2000 first ministers' agreement on health. Its reform themes are consistent with the recommendations of the Romanow Commission and the Kirby Senate Committee, as well as those of numerous provincial commissions on health reform.

Federal support for health care will increase by $17.3 billion over the next three years and by $34.8 billion over the next five years. It includes:

- $9.5 billion in increased cash transfers to provinces and territories over the next five years;
- $2.5 billion in a CHST supplement to relieve existing pressures, available to provinces and territories up to the end of 2005–06;
- $16.0 billion over five years in a Health Reform Fund for the provinces and territories, to target primary care, home care and catastrophic drug coverage;
- $1.5 billion to improve access to publicly funded diagnostic services;
- $600 million to accelerate the development of a national system of electronic health records;
- $500 million for research hospitals;
- $1.6 billion in direct Health Accord initiatives;
- $1.4 billion for other initiatives in support of health reform; and
- $1.3 billion to support health programs for First Nations and Inuit.

The 2003 Accord established an enhanced accountability framework under which all governments committed to providing comprehensive and regular reports to Canadians based on comparable indicators relating to health status, health outcomes and quality of service.

Table 1
Increased Federal Support for Health Care (2003–04 to 2007–08)

	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	Total
			(millions of dollars)			
Transfers						
Canada Health and Social Transfer (CHST) cash						
Cumulative increases (2000)[1]	700	1,300	1,900	2,500	3,100	9,500
CHST supplement[2]	1,000	1,000	500			2,500
Health reform						
Health Reform Fund	1,000	1,500	3,500	4,500	5,500	16,000
Diagnostic/medical equipment[3]	500	500	500			1,500
Health information technology[4]	200	200	200			600
Research hospitals (Canada Foundation for Innovation)[5]	100	100	200	100		500
Direct Health Accord initiatives	221	336	341	341	346	1,585
Other health initiatives in support of reform	337	253	258	258	258	1,364
First Nations and Inuit health	180	230	280	280	280	1,250
Cumulative funding increases			17,336 (3-Yr)		34,800 (5-Yr)	

Note: Totals may not add due to rounding. Payments under both trusts to be made in a manner that treats all jurisdictions equitably, regardless of when they draw down funds.

[1] Includes an increase of $1.8 billion over 2006–07 ($600 million) and 2007–08 ($1.2 billion).

[2] $2.5 billion to be paid to a third-party trust and accounted for in 2002–03 by the federal government. Profile based on an assumed drawdown by provinces and territories.

[3] $1.5 billion to be paid to a third-party trust and accounted for by the federal government in 2002–03. Profile based on an assumed drawdown by provinces and territories.

[4] $600 million to be paid to Canada Health Infoway and accounted for by the federal government in 2002–03.

[5] $500 million to be paid to the Canada Foundation for Innovation and accounted for by the federal government in 2002–03.

A Plan for Change

Under the 2003 Accord on Health Care Renewal, first ministers set out a range of initiatives aimed at ensuring real and lasting change for the Canadian health care system. The ultimate purpose of the Accord is to ensure that Canadians:

- have access to a health care provider 24 hours a day, 7 days a week;
- have timely access to diagnostic procedures and treatments;
- are not required to repeat their health histories or undergo the same test for every provider they see;

- have access to quality home and community care services;
- have access to the drugs they need without undue financial hardship;
- have access to quality care no matter where they live; and
- see their health care system as efficient, responsive and adaptive to their changing needs and those of their families and communities, now and in the future.

These initiatives build on the multi-year action plan for health reform outlined by first ministers in September 2000.

Reflecting their collective commitment to reform, Canada's first ministers have also agreed to pursue enhanced accountability for their health expenditures through annual public reporting on health system performance. These reports will include the indicators set out in the September 2000 agreement, as well as additional comparable indicators on the themes of quality, access, system efficiency and effectiveness. This will allow Canadians to monitor progress towards reform, track the level of access to health services and assess the overall efficiency of the health care system.

Support Through Transfers to Provinces and Territories

This budget confirms:

- A two-year extension of the original CHST five-year legislative framework put in place in September 2000, with an additional $1.8 billion, which will bring total cash transfers to $21.6 billion in 2006–07 and $22.2 billion in 2007–08.
- The restructuring of the existing CHST, to create a separate Canada Health Transfer and Canada Social Transfer effective April 1, 2004.
- A $2.5-billion CHST cash supplement to meet immediate needs in provincial and territorial health care systems. Provinces and territories will have flexibility to draw down this amount as they require up to the end of 2005–06. It will be accounted for by the federal government in fiscal year 2002–03.
- A federal government commitment to provide up to an additional $2.0 billion for health for the provinces and territories at the end of fiscal year 2003–04, if the Minister of Finance determines during the month of January 2004 that there will be a sufficient surplus above the normal Contingency Reserve to permit such an investment.

Health Reform

Federal, provincial and territorial governments have all taken steps to improve the quality, accessibility and sustainability of Canada's public health care system and have implemented important reforms. All governments recognize that reform is essential, and support new public investments targeted to achieve this goal. Priorities for reform include primary health care, targeted home care, catastrophic drug coverage, access to diagnostic/medical equipment and the development of a system of electronic health records.

Health Reform Fund

This budget provides $16 billion over five years through a special Health Reform Fund to help provinces and territories accelerate reform in priority areas identified in the first ministers' 2003 Accord. Specifically, these are:

- primary health care: to significantly increase the number of Canadians routinely receiving needed care from multidisciplinary primary health care organizations or teams, with a goal of ensuring that at least half of the population within each jurisdiction has access to an appropriate health care provider 24 hours a day, 7 days a week as soon as possible, and that this target is fully met within 8 years;
- home care: to provide first dollar coverage for a basket of services in the home and community for short-term acute home care, including acute community mental health and end-of-life care. First ministers have directed health ministers to determine by September 30, 2003, the minimum services to be provided; and
- catastrophic drug coverage: to take measures by the end of 2005–06 to ensure that Canadians, wherever they live, have reasonable access to catastrophic drug coverage.

Governments will have flexibility in determining the best ways to achieve these reform objectives, based on the particular needs of their residents and the status of reform in each jurisdiction.

Governments will prepare annual public reports on these Health Reform Fund priorities commencing in 2004, using comparable indicators to inform Canadians on progress achieved and key outcomes.

Investments under the Health Reform Fund will begin to flow to provinces and territories in 2003–04, upon passage of relevant legislation. Subject to a review of progress made in achieving the agreed-upon reforms

and following a first ministers' meeting, by March 31, 2008, the federal government will ensure that the level of funding provided through the Health Reform Fund is integrated into the Canada Health Transfer starting in 2008–09.

Diagnostic/Medical Equipment Fund

Waiting times for diagnostic services and medical treatments that rely on new equipment continue to be a major concern for Canadians. This budget builds on the $1 billion over two years provided for medical equipment in 2000 with an additional investment of $1.5 billion over the next three years. This funding will be provided to provincial and territorial governments in support of specialized staff training and equipment which improve access to publicly funded diagnostic services.

The $1.5-billion fund will be allocated to provinces and territories on an equal per capita basis. The amount will be paid into a third-party trust upon passage of relevant legislation. Provinces and territories will have flexibility to draw down funds as they require up to the end of 2005–06. It will be acccounted for by the federal governmnet in fiscal year 2002–03.

As agreed by first ministers, governments will begin in 2004 to report to their residents annually on enhancements to diagnostic and medical equipment and services, using comparable indicators, and to develop the necessary data infrastructure for these reports. This reporting will inform Canadians on service levels and outcomes, progress achieved, and current programs and expenditures, which will provide a baseline against which new investments can be tracked.

Health Information Technology—Electronic Health Records

Under the September 2000 agreement on health, the Government of Canada announced $500 million to expand the use of health information and communications technologies, including the adoption of electronic health records (EHRs). Canada Health Infoway was incorporated in 2001, and is working to develop a pan-Canadian, interoperable electronic health information system, in close partnership with federal-provincial-territorial governments and health care providers.

Electronic health records are an essential building block for a modernized, more integrated health care system. They give health providers rapid access to the medical records of their patients, including physician visits, hospital stays, prescription drugs and laboratory tests, while safeguarding patient privacy. A pan-Canadian EHR will:

- improve Canadians' access to health services by expediting diagnosis and treatment, supporting more accurate diagnosis and treatment, and eliminating distance barriers between patients and health care professionals;
- significantly improve the quality and safety of patient care by reducing the possibility of adverse drug events, such as handwritten prescription errors or allergic reactions; and
- enhance the efficiency of the health care system by reducing the costly duplication of tests, improving the quality of data, and supporting evidence-based management, decision making and research.

This budget provides an additional $600 million to Canada Health Infoway to accelerate the development of EHRs, common information technology standards across the country, and the further development of telehealth applications, which are critical to care in rural and remote areas. It will be accounted for by the federal governmment in fiscal year 2002–03.

Canada Health Infoway will report to the Canadian public and to the members of Infoway on an annual basis on its progress in implementing these initiatives. This reporting will inform Canadians on current programs, investment expenditures and milestones.

Research Hospitals (Canada Foundation for Innovation)

The integration of biomedical, clinical and health services research has given rise to needs for new and different facilities that will house sophisticated equipment and bring together researchers in new and innovative ways. The Canada Foundation for Innovation was established in 1997 to support the modernization of research infrastructure in Canadian universities and colleges, research hospitals and other non-profit research institutions across Canada.

This budget is providing new funding of $500 million in 2002–03 to the Canada Foundation for Innovation in support of such state-of-the-art health research facilities. Further details on this measure are provided in Chapter 5 of *The Budget Plan*.

Direct Health Accord Initiatives

This budget also confirms funding of $1.6 billion over the reform period of five years for direct Health Accord initiatives, including an employment insurance (EI) compassionate family care leave benefit, the Canadian Coordinating Office for Health Technology Assessment, greater patient safety, enhanced governance and accountability, a national immunization strategy, and sales tax measures in support of health care reform.

Employment Insurance Compassionate Family Care Leave Benefit

The need for economic security is particularly significant when a family is facing a crisis related to the grave illness and possible death of a family member. The Government of Canada recognizes that income support and job protection are key for workers who take time off work to care for gravely ill family members, as they often lose income and benefits due to time lost from paid employment. Therefore, on January 4, 2004, the Government will implement an employment insurance compassionate family care leave benefit.

Individuals who meet the eligibility requirements for EI special benefits, and have served the two-week waiting period, will be entitled to a six-week EI compassionate family care leave benefit to care for their gravely ill or dying child, parent or spouse. To provide flexibility in meeting the varying needs of individual families, eligible family members will be able to share the benefit. The Government will propose legislative changes so that permanent employees governed by the Canada Labour Code can benefit from the new leave provision by making sure that their jobs are protected during the leave period.

The compassionate family care leave benefit is estimated to cost $86 million in 2003–04 and $221 million in 2004–05 and each year thereafter.

Canadian Coordinating Office for Health Technology Assessment

With the development of new diagnostic and treatment technologies, there is increasing need for reliable, evidence-based information to ensure that these technologies are used in clinically beneficial, cost-effective ways.

This budget provides $45 million over the next five years to develop a Canadian Strategy for Technology Assessment. This funding will be provided to the Canadian Coordinating Office for Health Technology Assessment (CCOHTA), a non-profit organization supported by federal-provincial-territorial ministers of health. CCOHTA encourages the appropriate use of health technology through the collection, analysis, creation and dissemination of information concerning the effectiveness and cost of technology and its impact on health.

Patient Safety

Canadian health professionals are committed to achieving positive outcomes for their patients. Recently the National Steering Committee on Patient Safety issued a comprehensive report that recommended a national strategy to further reduce the incidence of medical errors and other preventable events in Canada. Among its main recommendations was the establishment of a Canadian Patient Safety Institute to promote innovative ways of improving patient safety, including professional development programs, as well as research and analysis of patient safety issues.

This budget responds to this report by providing $10 million annually to support the creation of a new Canadian Patient Safety Institute. The specific mandate, membership and activities of the Institute will be developed by federal, provincial and territorial ministers of health, in collaboration with health professional organizations and other stakeholders.

Governance and Accountability

This budget provides $205 million over five years for governance and accountability initiatives, including funding for the Canadian Institute for Health Information (CIHI), Statistics Canada and Health Canada to enhance their ability to report on the health system and the health of Canadians. A portion of this funding will also contribute to the creation and operation of a Health Council.

Canadian Institute for Health Information and Statistics Canada

The availability of accurate and timely information on trends in health status and health system performance is a crucial tool to inform responsive, patient-centred health policy decisions. CIHI and Statistics Canada have gained an international reputation for their work in expanding the basic information necessary to understand and address emerging health issues. Budget 2001 provided $95 million to support CIHI's work over four years, to be used in partnership with Statistics Canada.

Health Council

Canadians have made it clear that they want to see how their tax dollars are spent for health care and what results are achieved. Under the February 2003 Accord on Health Care Renewal, first ministers agreed to establish a Health Council to monitor and make annual public reports on the implementation of Accord priorities.

This budget contributes funding to the creation and operation of the Health Council. The Health Council will publicly report through federal-provincial-territorial ministers of health and will include representatives of both orders of government, experts and the public.

National Immunization Strategy

Immunization is one of the most effective preventive health measures. It decreases the incidence of disease and reduces pressure on the health care system. The nature of vaccines and vaccine delivery is changing. Newer vaccines are more complex, calling for higher production and safety standards and resulting in new combinations of vaccines and delivery methods.

This budget provides $45 million over five years to assist in the pursuit of a national immunization strategy. The objective of the strategy will be to ensure equitable and timely access to recommended vaccines for all Canadians in order to reduce the incidence of specific vaccine-preventable diseases. A national strategy will result in:

- improved safety and effectiveness of vaccines;
- enhanced coordination and efficiency of immunization procurement; and
- better information on immunization coverage rates within Canada.

Sales Tax Measure in Support of Health Care Reform

Under the goods and services tax and the harmonized sales tax (GST/HST), public sector bodies that provide services that are exempt from GST/HST—such as health care services—are entitled to partial rebates of the tax they pay on their purchases. Under this partial rebate system, hospitals may recover 83 per cent of the GST (and the federal portion of the HST) that they pay on their purchases, while charities and certain non-profit organizations may recover 50 per cent.

In recent years the restructuring of health care delivery has resulted in some services formerly provided in hospitals being performed in other non-profit institutions, which are entitled to the lesser rebate of GST/HST. The Department of Finance is undertaking discussions with the provinces and territories to assess and improve the current application of the health care rebate with respect to health care functions that are moved outside of hospitals. Consultations will also be held with representatives of the health care sector. The target date for the coming into force of changes to the application of the rebate is October 1, 2003.

Table 2
2003 Health Accord—Research Hospitals and Direct Health Accord Initiatives

	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	Total
			(millions of dollars)			
Research hospitals						
Canada Foundation for Innovation[1]	100	100	200	100		500
Direct health accord initiatives						
Employment insurance family care leave benefit	86	221	221	221	221	970
Canadian Coordinating Office for Health Technology Assessment	5	10	10	10	10	45
Patient safety	10	10	10	10	10	50
Governance and accountability[2]	85	30	30	30	30	205
National immunization strategy	5	10	10	10	10	45
Sales tax measure in support of health care reform	30	55	60	60	65	270
Subtotal	221	336	341	341	346	1,585
Total	321	436	541	441	346	2,085

[1] $500 million accounted for by the federal government in 2002–03.

[2] $70 million for CIHI accounted for by the federal government in 2002–03.

Other Health Initiatives in Support of Reform

This budget also confirms funding of $1.4 billion over the next five years for a series of other health initiatives that support reform in health care delivery.

Research and Innovation

Health research is a vital component of Canada's health care system. It is the source of new knowledge about human health and wellness that can be used to better prevent, diagnose and treat disease, and to better manage the health care system. Health research leads to the development of improved drug therapies, new medical equipment and innovative ways to organize and deliver health services.

The federal government provides significant funding for health research through its support for students, researchers, universities, research hospitals and other institutes, and also undertakes research in its own laboratories. These activities help keep Canada at the forefront of discovery and translate into better health care for Canadians.

This budget provides over $900 million in this and the next five years to support health research in Canada. An additional $55 million annually will be provided to the Canadian Institutes of Health Research to advance health research in Canada through its network of 13 virtual institutes. In addition, the Government is investing $75 million in Genome Canada for health genomics and providing $15 million to be used over seven years by the Rick Hansen Man In Motion Foundation to support its progress in finding a cure for spinal cord injuries. Finally, about half of the $225 million per year provided to universities, research hospitals and colleges to help fund the indirect costs of federally sponsored research will support health-related disciplines. Additional details are presented in Chapter 5 of *The Budget Plan*.

Canadian Health Services Research Foundation

In addition to making significant new investments in health research, it is equally important to ensure that health professionals and health system managers are equipped with the necessary skills to assess and apply the growing body of health research in the decisions they make every day.

This budget provides $25 million to be used over 10 years by the Canadian Health Services Research Foundation to initiate the Executive Training for Research Application (EXTRA) program. EXTRA will focus on training managers to *use* relevant research and innovation, thus complementing recent federal investments to train academics to *produce* more relevant research and innovation.

Pharmaceuticals Management

Access to safe, effective, new human drugs requires timely, efficient and scientifically rigorous review in all phases of the product cycle, including reviews and approvals by Health Canada and ongoing surveillance of safety and therapeutic effectiveness once a drug is on the market. Federal, provincial and territorial governments also require evidence on the cost-effectiveness of drugs in order to make sound listing decisions for public drug plan formularies.

This budget provides $190 million over five years to improve the timeliness of Health Canada's regulatory processes with respect to human drugs, in order to create a better climate for research in pharmaceuticals while preserving the principle that safety is of paramount concern.

Planning, Coordination and Partnerships

Canada's health care system depends on skilled, dedicated health professionals to provide quality care to citizens. Ensuring an appropriate supply and distribution of nurses, doctors and other health care providers is a challenge for all governments. In addition, ongoing changes in the delivery of health care services, particularly the trend towards multidisciplinary, team-based approaches in primary care, mean that the roles and responsibilities of various health care providers are evolving. The collaborative efforts of governments and health professional organizations are required to address such health human resources issues.

This budget provides $90 million over five years to improve national health human resources planning and coordination, including better forecasting of health human resources needs. It will also support the expansion of professional development programs to ensure that health professionals have the necessary knowledge and training to work effectively in multidisciplinary primary health care teams.

Health Services in Official Language Minority Communities

There are many Canadians who live in linguistic minority communities where they have limited access to health care services in their own language. It is important to ensure that there are enough health care providers who can work in minority language communities and that providers have access to the information and training needed to serve patients in their own language.

This budget provides $89 million over five years to implement a training and retention initiative for health professionals and a community networking initiative to improve access to services in both official languages in linguistic minority communities.

Wellness—Sport Participation

Participation in sport and physical activity contributes to a healthy lifestyle that enables Canadians to live healthier, longer and more productive lives.

This budget provides $45 million over five years to increase participation in sport and other fitness activities. The funding will be directed at the broadest possible level of participation to increase the exposure of children and youth to sport in the school setting and to encourage communities to increase individual and family-based sport participation.

Table 3
2003 Health Accord—Other Health Initiatives in Support of Reform

	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	Total
			(millions of dollars)			
Other health initiatives in support of reform						
Research and Innovation[1]	245	170	170	170	170	925
Canadian Health Services Research Foundation[2]	25					25
Pharmaceuticals management	40	40	40	35	35	190
Planning, coordination and partnerships	10	20	20	20	20	90
Health services in official language minority communities	12	13	18	23	23	89
Wellness–Sport participation	5	10	10	10	10	45
Total	337	253	258	258	258	1,364

[1] Includes funding for CIHR, Genome Canada, Rick Hansen Man In Motion Foundation and indirect research costs. $75 million for Genome Canada accounted for by the federal government in 2002–03.

[2] $25 million accounted for by the federal government in 2002–03.

First Nations and Inuit Health

The Government is committed to improving health care delivery in health policy areas under its direct responsibility, with a view to closing the health status gap between Aboriginal and non-Aboriginal Canadians. To this end, $1.3 billion over the next five years will be dedicated to First Nations and Inuit health programs, including new investments for nursing and capital development on reserve. This will include $32 million for a national on-reserve immunization strategy.

These measures complement funding identified in the December 2001 budget for programs that support early childhood development, with a particular focus on First Nations children on reserve. On October 31, 2002, total funding of $320 million over five years was announced to expand and enhance the Aboriginal Head Start program and the First Nations and Inuit Child Care Initiative. This funding will also intensify efforts to address Fetal Alcohol Syndrome/Fetal Alcohol Effects on reserves and to support a national survey on Aboriginal children, as well as research at the community level.

Federal Transfers to Provinces and Territories

Predictable, Sustainable and Growing Support

This budget provides a predictable, sustainable and growing long-term funding and planning framework for transfers to provinces and territories in support of health care and other social programs.

Following the September 2000 agreements on health and early childhood development, the federal government provided provinces and territories with a predictable, and growing, five-year funding framework to 2005–06 through the Canada Health and Social Transfer (CHST).

As agreed by first ministers in the 2003 Accord, the existing transfer funding track will be extended for an additional two years, to include 2006–07 and 2007–08, and increased by $1.8 billion. This is consistent with federal commitments made at the time of the first ministers' meeting in 2000.

Legislation will be introduced to establish levels for cash transfers up to 2007–08: $19.8 billion in 2003–04, $20.4 billion in 2004–05, $21 billion in 2005–06, $21.6 billion in 2006–07 and $22.2 billion in 2007–08.

The budget also indicates planned levels for total cash transfers to 2010–11 to provide a 10-year predictable and growing funding framework for the provinces and territories; subject to first ministers' review of progress on reform, these levels will be confirmed in legislation prior to the end of 2007–08.

Federal cash transfers to provinces and territories in support of health and other social programs are thus planned to double over a 10-year period, growing to $31.5 billion in 2010–11 from $15.5 billion in 2000–01. This means that cash transfers grow at 7.3 per cent annually on average during that period. This average annual growth in transfers will be greater than nominal growth in the economy, estimated at 4.7 per cent, over the same period.

In addition, tax transfers will continue to be an important element of the growing and predictable funding provided to the provinces and territories. They will bring the total transfers to $48.8 billion by 2007–08 and to $56.0 billion by 2010–11.

Table 4

10-Year Framework: Federal Transfers in Support of Health and Other Social Programs

				New legislative framework							
	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011
	(millions of dollars)										
Cash transfers	15,500	18,300	19,100	20,800	21,400	21,500	21,600	22,200	28,900	30,200	31,500
Health Reform Fund				1,000	1,500	3,500	4,500	5,500			
				Average annual growth rate of cash support: 7.3%							
Tax transfers	16,400	16,150	16,150	16,950	17,900	18,900	20,000	21,100	22,300	23,300	24,500
Total	31,900	34,450	35,250	38,750	40,800	43,900	46,100	48,800	51,200	53,500	56,000

Note: Cash and tax transfers for 2000–01 to 2003–04 are provided under the Canada Health and Social Transfer (CHST). Beyond 2003–04 the transfers are provided under the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). Cash amounts for 2008–09 ongoing include the roll-in of $5.5 billion from the Health Reform Fund (subject to a review by first ministers by the end of 2007–08). CHST supplement is included under cash transfers for 2003–04 to 2005–06, based on notional drawdown.

Increased Accountability

The CHST, originally created in 1996, combined the former Established Programs Financing and Canada Assistance Plan. A block transfer of federal support for health, post-secondary education, and social assistance and social services provided provincial and territorial flexibility to allocate funding according to their respective priorities.

In recognition of the desire to improve the transparency and accountability of federal support to provinces and territories, first ministers have agreed that the CHST will be restructured. This will be done while maintaining the important commitments to the five principles of medicare (comprehensiveness, universality, portability, accessibility and public administration), the prohibition against residency requirements for social assistance and the flexibility provided to provinces and territories for program design and delivery.

Current Transfer Structure

Canada Health and Social Transfer

In 2002–03 the federal government is transferring over $35 billion to provinces and territories through the CHST in support of health, post-secondary education, social assistance and social services, including early childhood development.

Since 1996 the CHST has been the federal government's largest transfer to provinces and territories. It is made up of a cash component worth $19.1 billion and a tax transfer component worth $16.2 billion in 2002–03. CHST entitlements are provided on an equal per capita basis to all provinces and territories.

While CHST cash has been set on a predictable growth path, the tax transfer component of the CHST, an important part of the federal government's ongoing support for health and social programs, continues to grow as well.

The tax transfer was implemented in 1977 when the federal government, with the agreement of provincial and territorial governments, reduced its personal and corporate income tax rates, while the provinces simultaneously raised theirs by the same amount. As a result, the revenue that would have flowed to the federal government began to flow directly to the provincial and territorial governments. The value of this tax transfer generally grows in line with the growth in the Canadian economy.

Equalization and Territorial Formula Financing

In addition, the federal government also provides support to provinces and territories through equalization and Territorial Formula Financing (TFF). In 2002–03 eight provinces receive $10.3 billion under equalization and the three territories receive $1.3 billion under TFF. Cash support provided under these two programs is unconditional and can be used to support health and other social programs in recipient provinces and territories.

Effective April 1, 2004, the federal government will create two new transfers:

- A Canada Health Transfer in support of health.
- A Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

The existing CHST (cash and tax transfer) will be apportioned between the Canada Health Transfer and Canada Social Transfer. The percentage of cash and tax points apportioned to the Canada Health Transfer will reflect the percentage of health spending within overall provincial spending in the health and social sectors supported by federal transfers. The remaining cash and tax points will be allocated to the Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

Current estimates are that health represents 62 per cent of programs supported by federal transfers, while the proportion related to post-secondary education and social assistance is 38 per cent. The precise apportionment will be determined when legislation is tabled.

The tax transfer component of the CHST will be maintained as part of the Canada Health Transfer and Canada Social Transfer structure. Total allocation of the new transfers to provinces and territories will continue on an equal per capita basis. Federal support to provinces and territories for health care is provided on an equal per capita basis to ensure equal support for all Canadians regardless of their place of residence.

Creating distinct transfers for health and other social spending will provide Canadians with information on the federal government's long-term contribution to health care consistent with the recommendations of the Auditor General, and will continue to provide flexibility for provinces and territories.

Canada Health Transfer

On the basis of the above proportions, and subject to final confirmation, the cash support under the new Canada Health Transfer would be as follows:

- The Canada Health Transfer cash would be $12.65 billion in 2004–05, $13.0 billion in 2005–06, $13.4 billion in 2006–07 and $13.75 billion in 2007–08.
- The Canada Health Transfer (cash and tax transfer) would thus be expected to grow to $26.85 billion in 2007–08 from $23.75 billion in 2004–05.

- Subject to a review of progress towards achieving the agreed-upon reforms and following a First Ministers meeting, $5.5 billion from the Health Reform Fund will be rolled into the Canada Health Transfer effective April 1, 2008.

Canada Social Transfer

On the basis of the above proportions, and subject to final confirmation, the cash levels for the new Canada Social Transfer would be set as follows:

- The Canada Social Transfer cash levels would be $7.75 billion in 2004–05, $8.0 billion in 2005–06, $8.2 billion in 2006–07 and $8.45 billion in 2007–08. The Canada Social Transfer will include the $500 million per year notionally allocated to early childhood development.
- The Canada Social Transfer (tax and cash components) would thus be expected to grow to $16.45 billion in 2007–08 from $14.55 billion in 2004–05.

Cash contributions under the new Canada Health Transfer and the new Canada Social Transfer will continue to be provided for the purpose of maintaining the national criteria and conditions in the Canada Health Act, including those respecting the five principles and the provisions relating to extra-billing and user charges, and the prohibition against residency requirements for social assistance.

Table 5

New Canada Health Transfer and Canada Social Transfer (2000–01 to 2007–08)

				New legislative framework				
	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
	(millions of dollars)							
Canada Health and Social Transfer (CHST)								
CHST cash	15,500	18,300	19,100	19,800				
CHST tax transfers	16,400	16,150	16,150	16,950				
Total	31,900	34,450	35,250	36,750				
CHST supplement[1]				1,000	1,000	500		
Health Reform Fund				1,000	1,500	3,500	4,500	5,500
Total				2,000	2,500	4,000	4,500	5,500
Canada Health Transfer (CHT)								
CHT cash[2]					12,650	13,000	13,400	13,750
CHT tax transfers[3]					11,100	11,700	12,400	13,100
Total					23,750	24,700	25,800	26,850
Canada Social Transfer (CST)								
CST cash[2]					7,750	8,000	8,200	8,450
CST tax transfers[3]					6,800	7,200	7,600	8,000
Total					14,550	15,200	15,800	16,450
Total cash transfers	15,500	18,300	19,100	21,800	22,900	25,000	26,100	27,700
Total tax transfers	16,400	16,150	16,150	16,950	17,900	18,900	20,000	21,100
Total	31,900	34,450	35,250	38,750	40,800	43,900	46,100	48,800

Note: Totals may not add up due to rounding.

[1] $2.5 billion cash supplement to be paid to a third-party trust and accounted for in 2002–03 by the federal government. Based on assumed drawdown of the funds as required, up to the end of 2005–06.

[2] Current estimates. The precise apportionment will be determined when legislation is tabled.

[3] Projections.

Other Federal Support for Health Care

In addition to federal support to health care provided through transfers—CHST (CHT starting in 2004–05), equalization and Territorial Formula Financing—the federal government provides support through other direct or tax measures currently amounting to $5 billion annually:

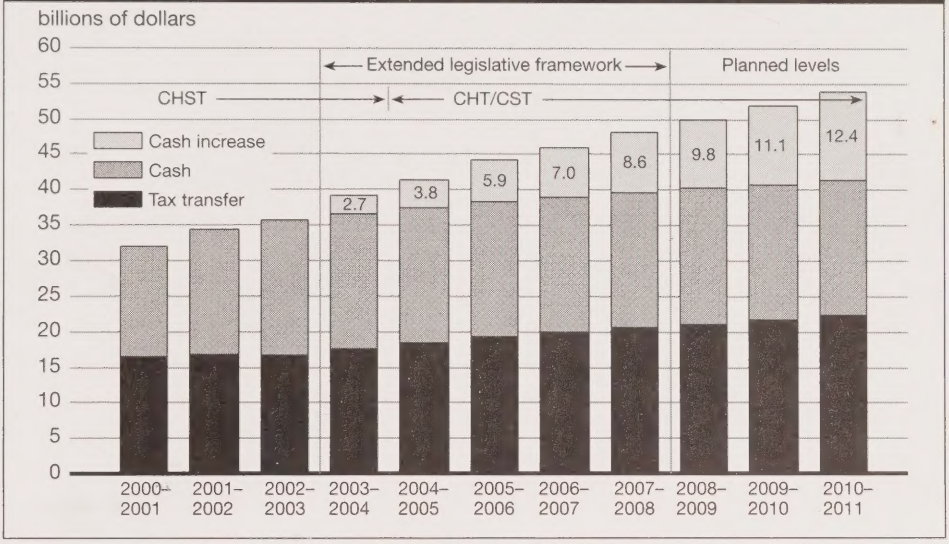
- Spending for health care of about $4 billion a year for First Nations' health, veterans' health, health protection, disease prevention, health information and health-related research.
- As well, through the tax system, the federal government provides support worth about $1 billion a year, including credits for medical expenses, disability, caregivers and infirm dependants.

Other Support for Post-Secondary Education and Social Programs

In addition to federal support for other social sectors provided through transfers—CHST (CST starting in 2004–05), equalization and Territorial Formula Financing—the federal government provides support through other direct or tax measures:

- About $5 billion for post-secondary education, including student financial assistance, support for research and support for Canadians upgrading their skills or saving for their education.
- Approximately $15 billion for social assistance and social services, including the Canada Child Tax Benefit, employment insurance parental benefits, First Nations' social programs and primary education, and programs and services for disadvantaged Canadians (e.g., youth at risk, the homeless and persons with disabilities).

Growing Support for Health and Social Programs



Note: Cash increase includes CHST increases, CHST supplement and the Health Reform Fund. Years 2008–09 to 2010–11 reflect the roll-in of $5.5 billion from the Health Reform Fund (subject to a review by first ministers by the end of 2007–08).